

MELCHER-DALLAS COMMUNITY SCHOOL DISTRICT  
MELCHER-DALLAS, IOWA

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

June 30, 2007

Peak & Gerdes, LLP  
Certified Public Accountants  
1051 Office Park Road  
West Des Moines, IA 50265

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Management's Discussion and Analysis	7-16
<b>Basic Financial Statements:</b>	
	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets	A      18
Statement of Activities	B      19
Governmental Fund Financial Statements:	
Balance Sheet	C      20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D      21
Statement of Revenues, Expenditures and Changes in Fund Balances	E      22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F      23
Proprietary Fund Financial Statements:	
Statement of Net Assets	G      24
Statement of Revenues, Expenses and Changes in Fund Net Assets	H      25
Statement of Cash Flows	I      26
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets	J      27
Statement of Changes in Fiduciary Net Assets	K      28
Notes to Financial Statements	29-38
<b>Required Supplementary Information:</b>	
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	40
Notes to Required Supplementary Information - Budgetary Reporting	41
	<u>Schedule</u>
<b>Other Supplementary Information:</b>	
Nonmajor Governmental Funds:	
Combining Balance Sheet	1      43
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2      44
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3      45
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	4      46
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	47-48
Schedule of Findings	49-53

Melcher-Dallas Community School District

Officials

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
<u>Board of Education</u> (Before September, 2006 Election)		
Lary Willoughby	President	2006
Ken Schneider	Vice-President	2008
Lee Franck	Board Member	2008
Joe Clark	Board Member	2007
Ann Fee	Board Member	2006
<u>Board of Election</u> (After September, 2006 Election)		
Lary Willoughby	President	2009
Ken Schneider	Vice-President	2008
Lee Franck	Board Member	2008
Joe Clark	Board Member	2007
Ann Fee	Board Member	2009
<u>School Officials</u>		
Steve Mitchell	Superintendent	2007
Andrea Lawler	District Secretary and Treasurer	2007
Ahlers Law Firm	Attorney	2007

Melcher-Dallas Community School District

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Independent Auditor's Report

To the Board of Education of  
Melcher-Dallas Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Melcher-Dallas Community School District, Melcher-Dallas, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Melcher-Dallas Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U. S. generally accepted accounting principals.

In accordance with Government Auditing Standards, we have also issued our report dated September 5, 2007 on our consideration of Melcher-Dallas Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 16 and 40 through 41 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Melcher-Dallas Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP  
Certified Public Accountants

September 5, 2007

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Melcher-Dallas Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$3,409,109 in fiscal 2006 to \$3,391,523 in fiscal 2007, while General Fund expenditures increased from \$3,199,476 in fiscal 2006 to \$3,247,292 in fiscal 2007. The District's General Fund balance increased from \$267,321 in fiscal 2006 to \$411,552 in fiscal 2007, a 54% increase, representing a total change in fund balance of \$144,231 from fiscal 2006 to fiscal 2007.
- The Capital Projects, Local Option Sales Tax Fund increased \$40,225, from \$193,230 in fiscal 2006 to \$233,455 in fiscal 2007. Additional funds will be needed in this fund to address the old elementary school.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Melcher-Dallas Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements report Melcher-Dallas Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The governmental fund financial statements tell how well governmental services were financed in the short term as well as what remains for future spending. The proprietary fund financial statements offer short-term and long-term financial information about activities the District operates like a business. In Melcher-Dallas Community School District, the school nutrition program operations are the only enterprise reported as a proprietary fund. The remaining statements provide financial information about activities for which Melcher-Dallas Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

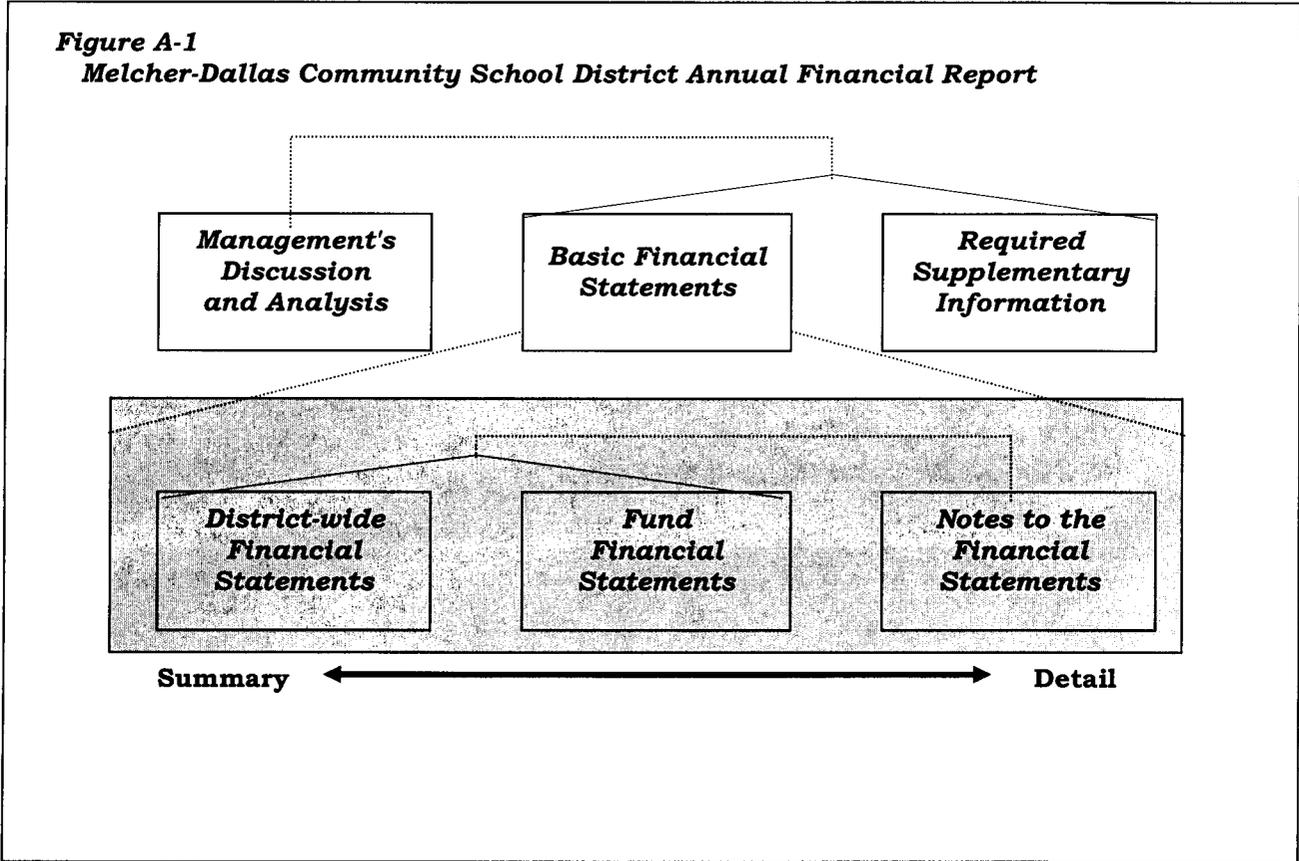


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## **REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statements*

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or

decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Fund, one type of proprietary fund, is the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund. Internal Service Funds, the other type of proprietary fund, are optional and available to report activities that provide supplies and services for other District programs and activities. The District currently has one Internal Service Fund, the HRA Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

<b>Figure A-3</b>							
<b>Condensed Statement of Net Assets</b>							
<b>(Expressed in Thousands)</b>							
	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2007-2006
Current and other assets	\$ 3,104	3,197	9	13	3,113	3,210	-3.0%
Capital assets	3,535	3,537	18	21	3,553	3,558	-0.1%
Total assets	<u>6,639</u>	<u>6,734</u>	<u>27</u>	<u>34</u>	<u>6,666</u>	<u>6,768</u>	<u>-1.5%</u>
Long-term liabilities	1,731	1,852	-	-	1,731	1,852	-6.5%
Other liabilities	2,270	2,647	22	13	2,292	2,660	-13.8%
Total liabilities	<u>4,001</u>	<u>4,499</u>	<u>22</u>	<u>13</u>	<u>4,023</u>	<u>4,512</u>	<u>-10.8%</u>
Net assets							
Invested in capital assets, net of related debt	1,865	1,981	18	21	1,883	2,002	-5.9%
Restricted	99	41	-	-	99	41	141.5%
Unrestricted	674	213	(13)	-	661	213	210.3%
Total net assets	<u>\$ 2,638</u>	<u>2,235</u>	<u>5</u>	<u>21</u>	<u>2,643</u>	<u>2,256</u>	<u>17.2%</u>

The District's combined net assets increased by 17.2%, or approximately \$387,000, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$58,000, or 142% over the prior year. The increase was primarily the result of increased revenues in the Management Levy Fund and the Physical Plant and Equipment Levy Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$448,000. This increase in unrestricted net assets was a result of the District monitoring its spending and not purchasing anything unless it was absolutely necessary.

Figure A-4 shows the change in net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

<b>Figure A-4</b>								
<b>Change in Net Assets</b>								
<b>(Expressed in Thousands)</b>								
	Governmental		Business type		Total		Total	
	Activities		Activities		School District		Change	
	2007	2006	2007	2006	2007	2006	2006-2007	
<b>Revenues</b>								
Program revenues:								
Charges for service and sales	\$ 195	191	82	86	277	277	0.0%	
Operating grants, contributions and restricted interest	419	424	74	73	493	497	-0.8%	
Capital grants, contributions and restricted interest	34	1	-	-	34	1	3300.0%	
General revenues:								
Property tax	914	1,066	-	-	914	1,066	-14.3%	
Income surtax	69	73	-	-	69	73	-5.5%	
Local option sales and services tax	239	238	-	-	239	238	0.4%	
Unrestricted state grants	2,032	1,816	-	-	2,032	1,816	11.9%	
Unrestricted investment earnings	95	64	-	-	95	64	48.4%	
Other	33	69	-	-	33	69	-52.2%	
<b>Total revenues</b>	<b>4,030</b>	<b>3,942</b>	<b>156</b>	<b>159</b>	<b>4,186</b>	<b>4,101</b>	<b>2.1%</b>	
Program expenses:								
Instruction	2,331	2,262	-	-	2,331	2,262	3.1%	
Support services	994	1,043	-	-	994	1,043	-4.7%	
Non-instructional programs	-	-	172	166	172	166	3.6%	
Other expenses	301	295	-	-	301	295	2.0%	
<b>Total expenses</b>	<b>3,626</b>	<b>3,600</b>	<b>172</b>	<b>166</b>	<b>3,798</b>	<b>3,766</b>	<b>0.9%</b>	
<b>Increase (decrease) in net assets</b>	<b>\$ 404</b>	<b>342</b>	<b>(16)</b>	<b>(7)</b>	<b>388</b>	<b>335</b>	<b>15.8%</b>	

In fiscal 2007, property tax and unrestricted state grants account for 73.1% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 100% of the revenue from business type activities.

The District's total revenues were approximately \$4.2 million of which \$4.0 million was for governmental activities and approximately \$156,000 for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2.1% increase in revenues and a 0.9% increase in expenses. Unrestricted state grants increased approximately \$216,000 to fund increases in expenditures. The property tax rate for fiscal 2007 was \$19.178/\$1,000 representing a decrease of approximately \$4.28/\$1,000 from the fiscal 2006 rate of \$23.454/\$1,000. Two main reasons for this were an increase in enrollment resulting in less need for the budget guarantee and the legislative changes which are intended to create more equity among school districts from the additional levy needed to fund the general fund regular programs. The increase in expenses related to increases in gasoline and utility costs, and the purchase of new vehicles.

### Governmental Activities

Revenues for governmental activities were \$4,030,201 and expenses were \$3,626,519. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues and balances.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

**Figure A-5**  
**Total and Net Cost of Governmental Activities**  
**(Expressed in Thousands)**

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-2007	2007	2006	Change 2006-2007
Instruction	\$ 2,331	2,262	3.1%	1,846	1,771	4.2%
Support services	994	1,043	-4.7%	994	1,043	-4.7%
Non-instructional programs	-	-	0.0%	-	-	0.0%
Other expenses	301	295	2.0%	137	170	-19.4%
<b>Total</b>	<b>\$ 3,626</b>	<b>3,600</b>	<b>0.7%</b>	<b>2,977</b>	<b>2,984</b>	<b>-0.2%</b>

- The cost financed by users of the District's programs was \$195,643.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$453,241.
- The net cost of governmental activities was financed with \$1,221,406 in property and other taxes and \$2,032,103 in unrestricted state grants.

### Business Type Activities

Revenues for business type activities were \$156,347 representing a 1.6% decrease under the prior year while expenses totaled \$172,079, a 3.6% increase over the prior year. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, Melcher-Dallas Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$745,929, well above last years ending fund balances of \$503,376.

### **Governmental Fund Highlights**

- The District's General Fund financial position improved for the third year in a row, and is a result of many factors. The staff and administration have worked hard to keep costs to a minimum while still offering our students the best education possible.
- The General Fund balance increased from \$267,321 to \$411,552. This represents a \$144,231 increase from the previous year. Increased enrollment and changes in the funding formula were the primary reasons for the increase in the fund balance.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased by \$12,964 from fiscal 2006 to fiscal 2007. Expenditures from this fund were made only for improvements to the facilities for fire codes. Revenues were from property taxes and a Fire Grant. Expenditures were approximately equal to the revenue from a Fire Grant.
- In regards to the Capital Projects Fund, Marion County passed the local option sales and services tax in fiscal 2004, and we began receiving revenue from this source in fiscal 2005. In this fund, total revenue for the year was \$247,152 and expenditures were \$138,427. In addition, the District used \$68,500 of these funds in fiscal 2007 to pay general obligation bonds of the District.

### **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$20,612 at June 30, 2006 to \$4,880 at June 30, 2007, representing a decrease of approximately 76%. Meal prices were raised for the 2007-08 school year. A review of the open campus policies at the high school will be made on an on-going basis throughout this year.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Melcher-Dallas Community School District did not amend its annual budget.

The District's revenues were \$243,048 less than budgeted revenues, a variance of 5.5%.

Total expenditures were \$675,739 less than budgeted expenditures, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2007, the District had invested, net of accumulated depreciation, \$3.6 million in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6). This represents a net decrease of 0.1% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$150,749 for both governmental and business type activities.

The original cost of the District's capital assets was \$5.2 million. Governmental funds account for \$5.1 million, with the remaining \$0.1 million accounted for in the Proprietary, School Nutrition Fund.

<b>Figure A-6</b>							
<b>Capital Assets, net of Depreciation</b>							
<b>(Expressed in Thousands)</b>							
	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-2007
Land	\$ 14	14	-	-	14	14	0.0%
Buildings	3,101	3,182	-	-	3,101	3,182	-2.5%
Improvements other than buildings	84	59	-	-	84	59	42.4%
Furniture and equipment	336	282	18	21	354	303	16.8%
Total assets	<u>\$ 3,535</u>	<u>3,537</u>	<u>18</u>	<u>21</u>	<u>3,553</u>	<u>3,558</u>	<u>-0.1%</u>

### Long-Term Debt

At June 30, 2007, the District had \$1,731,280 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 6.5% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

**Figure A-7**  
**Outstanding Long-Term Obligations**  
**(Expressed in Thousands)**

	Total District		Total Change
	June 30,		June 30,
	2007	2006	2006-2007
General obligation bonds	\$ 1,670	1,750	-4.6%
Early retirement	60	99	-39.4%
Compensated absences	1	3	-66.7%
<b>Total</b>	<b>\$ 1,731</b>	<b>1,852</b>	<b>-6.5%</b>

### **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future.

- Although fiscal year 2007 was an increase in enrollment from fiscal year 2006, we are down in enrollment for fiscal year 2008 and have a decrease in enrollment for our fiscal 2009 budget.
- The District will negotiate a new agreement with the Melcher-Dallas Education Association during fiscal 2008, effective with the 2008-2009 school year. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the Districts General Fund budget and related fund balance.
- The District was one of the Districts that received a grant for their preschool program. We continue to look for ways to serve the youngest students in the District.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Andrea Lawler, District Secretary/Treasurer and Business Manager, Melcher-Dallas Community School District, 210 South Main, Melcher, Iowa, 50163.

**Basic Financial Statements**

## Melcher-Dallas Community School District

Exhibit A

## Statement of Net Assets

June 30, 2007

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents:			
ISCAP	\$ 968,188	-	968,188
Other	1,005,954	4,188	1,010,142
Receivables:			
Property tax:			
Delinquent	26,711	-	26,711
Succeeding year	905,771	-	905,771
Accounts	12,986	498	13,484
Accrued interest:			
ISCAP	12,738	-	12,738
Due from other funds	21,643	-	21,643
Due from other governments	150,260	-	150,260
Inventories	-	3,869	3,869
Capital assets, net of accumulated depreciation	3,535,202	17,968	3,553,170
<b>Total assets</b>	<b>6,639,453</b>	<b>26,523</b>	<b>6,665,976</b>
<b>Liabilities</b>			
Accounts payable	18,064	-	18,064
Salaries and benefits payable	304,365	-	304,365
Due to other governments	46,892	-	46,892
Other liabilities	5,989	-	5,989
Due to other funds	-	21,643	21,643
Accrued interest payable	13,358	-	13,358
Deferred revenue:			
Succeeding year property tax	905,771	-	905,771
ISCAP warrants payable	970,000	-	970,000
ISCAP accrued interest payable	5,366	-	5,366
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	90,000	-	90,000
Early retirement payable	14,687	-	14,687
Compensated absences	952	-	952
Portion due after one year:			
General obligation bonds payable	1,580,000	-	1,580,000
Early retirement payable	45,641	-	45,641
<b>Total liabilities</b>	<b>4,001,085</b>	<b>21,643</b>	<b>4,022,728</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	1,865,202	17,968	1,883,170
Restricted for:			
Management levy	43,627	-	43,627
Physical plant and equipment levy	25,831	-	25,831
Other special revenue purposes	29,720	-	29,720
Unrestricted	673,988	(13,088)	660,900
<b>Total net assets</b>	<b>\$ 2,638,368</b>	<b>4,880</b>	<b>2,643,248</b>

See notes to financial statements.

## Statement of Activities

Year ended June 30, 2007

Functions / Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Governmental activities:</b>							
Instruction:							
Regular instruction	\$ 1,291,647	58,592	217,547	-	(1,015,508)	-	(1,015,508)
Special instruction	644,363	39,702	64,610	-	(540,051)	-	(540,051)
Other instruction	394,793	97,169	6,839	-	(290,785)	-	(290,785)
	<u>2,330,803</u>	<u>195,463</u>	<u>288,996</u>	<u>-</u>	<u>(1,846,344)</u>	<u>-</u>	<u>(1,846,344)</u>
Support services:							
Student services	53,398	-	-	-	(53,398)	-	(53,398)
Instructional staff services	12,977	-	-	-	(12,977)	-	(12,977)
Administration services	484,118	-	-	-	(484,118)	-	(484,118)
Operation and maintenance of plant	276,839	-	-	-	(276,839)	-	(276,839)
Transportation services	166,911	-	-	-	(166,911)	-	(166,911)
	<u>994,243</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(994,243)</u>	<u>-</u>	<u>(994,243)</u>
Non-instructional programs	414	-	-	-	(414)	-	(414)
Other expenditures:							
Facilities acquisition	3,872	-	-	33,784	29,912	-	29,912
Long-term debt interest	85,595	-	168	-	(85,427)	-	(85,427)
AEA flowthrough	130,293	-	130,293	-	-	-	-
Depreciation (unallocated)*	81,299	-	-	-	(81,299)	-	(81,299)
	<u>301,059</u>	<u>-</u>	<u>130,461</u>	<u>33,784</u>	<u>(136,814)</u>	<u>-</u>	<u>(136,814)</u>
Total governmental activities	3,626,519	195,463	419,457	33,784	(2,977,815)	-	(2,977,815)
<b>Business type activities:</b>							
Non-instructional programs:							
Food service operations	172,079	82,533	73,714	-	-	(15,832)	(15,832)
Total	<u>\$ 3,798,598</u>	<u>277,996</u>	<u>493,171</u>	<u>33,784</u>	<u>(2,977,815)</u>	<u>(15,832)</u>	<u>(2,993,647)</u>
<b>General Revenues:</b>							
Property tax levied for:							
General purposes					\$ 800,666	-	800,666
Debt service					97,841	-	97,841
Capital outlay					15,732	-	15,732
Local option sales and services tax					238,368	-	238,368
Income surtax					68,799	-	68,799
Unrestricted state grants					2,032,103	-	2,032,103
Unrestricted investment earnings					94,883	100	94,983
Other					33,105	-	33,105
Total general revenues					<u>3,381,497</u>	<u>100</u>	<u>3,381,597</u>
Change in net assets					403,682	(15,732)	387,950
Net assets beginning of year					<u>2,234,686</u>	<u>20,612</u>	<u>2,255,298</u>
Net assets end of year					<u>\$ 2,638,368</u>	<u>4,880</u>	<u>2,643,248</u>

\* This amount excludes the depreciation that is included in the direct expenses of the various programs

See notes to financial statements.

Balance Sheet  
Governmental Funds

June 30, 2007

	General	Nonmajor	Total
<b>Assets</b>			
Cash and pooled investments:			
ISCAP	\$ 968,188	-	968,188
Other	696,699	271,924	968,623
Receivables:			
Property tax:			
Delinquent	19,007	7,704	26,711
Succeeding year	676,759	229,012	905,771
Accounts	12,986	-	12,986
Accrued interest:			
ISCAP	12,738	-	12,738
Due from other funds	24,443	11,544	35,987
Due from other governments	100,699	49,561	150,260
<b>Total assets</b>	<b>\$ 2,511,519</b>	<b>569,745</b>	<b>3,081,264</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 14,015	3,556	17,571
Salaries and benefits payable	304,365	-	304,365
Due to other governments	46,892	-	46,892
Other liabilities	5,989	-	5,989
Due to other funds	11,544	2,800	14,344
ISCAP warrants payable	970,000	-	970,000
ISCAP accrued interest payable	5,366	-	5,366
Deferred revenue:			
Succeeding year property tax	676,759	229,012	905,771
Other	65,037	-	65,037
<b>Total liabilities</b>	<b>2,099,967</b>	<b>235,368</b>	<b>2,335,335</b>
Fund balances:			
Reserved for market factor	3,002	-	3,002
Reserved for debt service	-	1,744	1,744
Unreserved	408,550	332,633	741,183
<b>Total fund balances</b>	<b>411,552</b>	<b>334,377</b>	<b>745,929</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,511,519</b>	<b>569,745</b>	<b>3,081,264</b>

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit D

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets

June 30, 2007

<b>Total fund balances of governmental funds (page 20)</b>	<b>\$ 745,929</b>
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,535,202
The Internal Service Fund is used by management to charge the costs of funding the District's HRA benefit plan. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Assets.	36,838
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	65,037
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(13,358)
Long-term liabilities, including bonds payable, early retirement payable and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,731,280)</u>
<b>Net assets of governmental activities (page 18)</b>	<b><u><u>\$ 2,638,368</u></u></b>

See notes to financial statements.

## Melcher-Dallas Community School District

Exhibit E

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds

Year ended June 30, 2007

	General	Nonmajor	Total
<b>Revenues:</b>			
Local sources:			
Local tax	\$ 714,747	502,039	1,216,786
Tuition	37,682	-	37,682
Other	165,957	107,020	272,977
Intermediate sources	1,000		1,000
State sources	2,331,711	-	2,331,711
Federal sources	140,426	25,000	165,426
Total revenues	3,391,523	634,059	4,025,582
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular instruction	1,323,240	45,903	1,369,143
Special instruction	624,446	2,777	627,223
Other instruction	288,712	103,223	391,935
	2,236,398	151,903	2,388,301
Support services:			
Student services	53,236	162	53,398
Instructional staff services	12,918	59	12,977
Administration services	455,849	30,267	486,116
Operation and maintenance of plant services	234,877	83,112	317,989
Transportation services	123,721	71,471	195,192
	880,601	185,071	1,065,672
Non-instructional programs	-	414	414
Other expenditures:			
Facilities acquisition	-	31,824	31,824
Long-term debt:			
Principal	-	80,000	80,000
Interest and fiscal charges	-	86,525	86,525
AEA flowthrough	130,293	-	130,293
	130,293	198,349	328,642
Total expenditures	3,247,292	535,737	3,783,029
Excess of revenues over expenditures	144,231	98,322	242,553
Other financing sources (uses):			
Operating transfers in	-	68,500	68,500
Operating transfers out	-	(68,500)	(68,500)
Total other financing sources (uses)	-	-	-
Net change in fund balances	144,231	98,322	242,553
Fund balances beginning of year	267,321	236,055	503,376
Fund balances end of year	\$ 411,552	334,377	745,929

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit F

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds  
to the Statement of Activities

Year ended June 30, 2007

**Net change in fund balances - total governmental funds (page 22)** **\$ 242,553**

*Amounts reported for governmental activities in the  
Statement of Activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures was less than depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 145,914	
Depreciation expense	<u>(148,021)</u>	(2,107)

Income surtax is not collected until several months after year end and is not considered available revenue and is deferred in the governmental funds. 4,619

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues, as follows:

Issued	-	
Repaid	<u>80,000</u>	80,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 930

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	1,998	
Early retirement	<u>38,851</u>	40,849

The Internal Service Fund is used by management to charge the costs of funding the District's HRA benefit plan. The change in net assets of the Internal Service Fund is reported with governmental activities. 36,838

**Change in net assets of governmental activities (page 19)** **\$ 403,682**

## Melcher-Dallas Community School District

Exhibit G

Statement of Net Assets  
Proprietary Funds

June 30, 2007

	<u>Business Type Activities</u>	<u>Governmental Activities</u>
	Enterprise - School Nutrition	Internal Service - HRA
<b>Assets</b>		
Cash and cash equivalents	\$ 4,188	37,331
Accounts receivable	498	-
Inventories	3,869	-
Capital assets, net of accumulated depreciation	17,968	-
<b>Total assets</b>	<u>26,523</u>	<u>37,331</u>
<b>Liabilities</b>		
Accounts payable	-	493
Due to other funds	21,643	-
<b>Total liabilities</b>	<u>21,643</u>	<u>493</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	17,968	-
Unrestricted	(13,088)	36,838
<b>Total net assets</b>	<u>\$ 4,880</u>	<u>36,838</u>

See notes to financial statements.

## Melcher-Dallas Community School District

Exhibit H

Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds

Year ended June 30, 2007

	<u>Business Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise - School Nutrition</u>	<u>Internal Service - HRA</u>
Operating revenues:		
Local sources:		
Charges for service	\$ 82,533	-
Employer contributions	-	44,129
Total operating revenue	<u>82,533</u>	<u>44,129</u>
Operating expenses:		
Non-instructional programs:		
Food service operations:		
Salaries	52,005	-
Benefits	30,825	-
Purchased services	3,376	-
Supplies	83,145	-
Other	-	7,291
Depreciation	2,728	-
Total operating expenses	<u>172,079</u>	<u>7,291</u>
Operating income (loss)	<u>(89,546)</u>	<u>36,838</u>
Non-operating revenues:		
State sources	1,993	-
Federal sources	71,721	-
Interest income	100	-
Total non-operating revenues	<u>73,814</u>	<u>-</u>
Change in net assets	(15,732)	36,838
Net assets beginning of year	<u>20,612</u>	<u>-</u>
Net assets end of year	<u>\$ 4,880</u>	<u>36,838</u>

See notes to financial statements.

## Melcher-Dallas Community School District

Exhibit I

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2007

	<u>Business Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise - School Nutrition</u>	<u>Internal Service - HRA</u>
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 82,035	-
Cash received from miscellaneous operating activities	-	44,129
Cash paid to employees for services	(52,005)	-
Cash paid to suppliers for goods and services	(100,348)	(6,798)
Net cash provided (used) by operating activities	<u>(70,318)</u>	<u>37,331</u>
Cash flows from non-capital financing activities:		
State grants received	1,993	-
Federal grants received	62,352	-
Net cash provided by non-capital financing activities	<u>64,345</u>	<u>-</u>
Cash flows from capital and related financing activities:		
None	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>100</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(5,873)	37,331
Cash and cash equivalents beginning of year	10,061	-
Cash and cash equivalents end of year	<u>\$ 4,188</u>	<u>37,331</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ (89,546)	36,838
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Commodities used	9,369	-
Depreciation	2,728	-
(Increase) in accounts receivable	(498)	-
(Increase) in inventories	(629)	-
Increase in accounts payable	-	493
Increase in due to other funds	8,258	-
Net cash provided (used) by operating activities	<u>\$ (70,318)</u>	<u>37,331</u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2007, the District received \$9,369 of federal commodities.

See notes to financial statements.

Melcher-Dallas Community School District

Exhibit J

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2007

	<u>Private Purpose Trust</u> <u>Scholarship</u>
<b>Assets</b>	
Cash and pooled investments	\$ 8,809
Investment	5,000
<b>Total assets</b>	<u>13,809</u>
<b>Liabilities</b>	<u>-</u>
<b>Net Assets</b>	
Reserved for scholarships	<u>\$ 13,809</u>

See notes to financial statements.

Melcher-Dallas Community School District  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Exhibit K

Year ended June 30, 2007

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	\$ 2,000
Interest income	693
Total additions	<u>2,693</u>
Deductions:	
Support services:	
Scholarships awarded	<u>2,242</u>
Changes in net assets	451
Net assets beginning of year	<u>13,358</u>
Net assets end of year	<u><u>\$ 13,809</u></u>

See notes to financial statements.

Melcher-Dallas Community School District

Notes to Financial Statements

June 30, 2007

**(1) Summary of Significant Accounting Policies**

Melcher-Dallas Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Melcher-Dallas, Iowa, and the predominate agricultural territory of Marion County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Melcher-Dallas Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Melcher-Dallas Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marion County Assessor's Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

Additionally, the District reports a nonmajor proprietary fund. The Internal Service – HRA Fund is utilized to account for the health reimbursement account monies.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

#### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For the purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 1/2% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2006.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in applicable government or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as property tax receivable, and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures did not exceed the amounts budgeted.

(2) **Cash, Pooled Investments and Investments**

The District's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust in the Diversified Portfolio Fund. The amortized cost of these investments was \$868,396 at June 30, 2007.

The Iowa Schools Joint Investment Trust investment is valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

At June 30, 2007, the District had an investment in a Federal Home Loan Mortgage Corporation (FHLMC) Medium Term Note. This investment is an obligation of the United States Government. The original cost of the investment was \$5,000, and at June 30, 2007, the market value of this investment was \$4,968. The FHLMC investment is stated at fair value, and is valued at the last reported sales price on June 30, 2007.

Credit Risk. The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investment Service.

**(3) Due From and Due to Other Funds**

The details of interfund receivables and payables at June 30, 2007 are as follows:

Receivable Fund	Payable Fund	Amount
General	Debt Service	\$ 2,800
	Proprietary: School Nutrition	21,643
		<u>24,443</u>
Special Revenue: Management Levy	General	<u>11,544</u>
	Total	<u>\$ 35,987</u>

The above due from/to amounts primarily represent loans between funds, and corrections of incorrect recording of transactions.

**(4) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Local Option Sales Tax	<u>68,500</u>
	Total	<u>\$ 68,500</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/2006	6/28/2007	\$ -	6,050	-	-
2006-07B	1/26/2007	1/25/2008	287,266	6,484	288,000	5,198
2007-08A	6/27/2007	6/27/2008	680,922	204	682,000	168
			<u>\$ 968,188</u>	<u>12,738</u>	<u>970,000</u>	<u>5,366</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2006-07A	\$ -	132,000	132,000	-

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%
2006-07B	4.250%	5.315%
2007-08A	4.500%	5.455%

(6) **Capital Assets**

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance Beginning of Year, as restated (Note 13)	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 13,925	-	-	13,925
Total capital assets not being depreciated	<u>13,925</u>	<u>-</u>	<u>-</u>	<u>13,925</u>
Capital assets being depreciated:				
Buildings	4,111,700	-	-	4,111,700
Improvements other than buildings	186,629	27,952	-	214,581
Furniture and equipment	755,031	117,962	61,754	811,239
Total capital assets being depreciated	<u>5,053,360</u>	<u>145,914</u>	<u>61,754</u>	<u>5,137,520</u>
Less accumulated depreciation for:				
Buildings	929,735	81,299	-	1,011,034
Improvements other than buildings	127,679	2,695	-	130,374
Furniture and equipment	472,562	64,027	61,754	474,835
Total accumulated depreciation	<u>1,529,976</u>	<u>148,021</u>	<u>61,754</u>	<u>1,616,243</u>
Total capital assets being depreciated, net	<u>3,523,384</u>	<u>(2,107)</u>	<u>-</u>	<u>3,521,277</u>
Governmental activities capital assets, net	<u>\$ 3,537,309</u>	<u>(2,107)</u>	<u>-</u>	<u>3,535,202</u>
<b>Business type activities:</b>				
Furniture and equipment	\$ 49,090	-	-	49,090
Less accumulated depreciation	28,394	2,728	-	31,122
Business type activities capital assets, net	<u>\$ 20,696</u>	<u>(2,728)</u>	<u>-</u>	<u>17,968</u>

Depreciation expense was charged to the following functions:

<b>Governmental activities:</b>	
Instruction:	
Regular	\$ 5,046
Special	17,140
Other	2,858
Support services:	
Operation and maintenance of plant	8,539
Transportation	33,139
	<u>66,722</u>
Unallocated	<u>81,299</u>
Total depreciation expense - governmental activities	<u>\$ 148,021</u>
<b>Business type activities:</b>	
Food service operations	<u>\$ 2,728</u>

(7) **Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 1,750,000	-	80,000	1,670,000	90,000
Early retirement	99,179	-	38,851	60,328	14,687
Compensated absences	2,950	952	2,950	952	952
<b>Total</b>	<b>\$ 1,852,129</b>	<b>952</b>	<b>121,801</b>	<b>1,731,280</b>	<b>105,639</b>

General Obligation Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 1, 1999			Bond Issue of December 1, 2001			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2008	4.40%	\$ 80,000	59,642	5.00%	10,000	21,708	90,000	81,350	171,350
2009	4.50%	85,000	56,122	5.00%	10,000	21,207	95,000	77,329	172,329
2010	4.60%	85,000	52,298	4.30%	10,000	20,707	95,000	73,005	168,005
2011	4.70%	90,000	48,388	4.40%	10,000	20,278	100,000	68,666	168,666
2012	4.80%	95,000	44,158	4.50%	10,000	19,838	105,000	63,996	168,996
2013-2017	4.90-5.00%	540,000	146,296	4.60-4.95%	60,000	91,993	600,000	238,289	838,289
2018-2021	5.00%	255,000	19,250	5.00%	330,000	54,750	585,000	74,000	659,000
<b>Total</b>		<b>\$ 1,230,000</b>	<b>426,154</b>		<b>440,000</b>	<b>250,481</b>	<b>1,670,000</b>	<b>676,635</b>	<b>2,346,635</b>

Early Retirement

In a prior year, the District offered a voluntary early retirement plan to its certified employees. Eligible employees must have been at least age fifty-five on or before June 30 in the calendar year in which early retirement commences and must have completed ten years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives are equal to 100% of the employees annual salary in effect at the date of the request for early retirement. The District's policy is that benefits are to be prorated from the employees retirement date until the employee turns 65 years of age. Eligible employees retiring under the early retirement program are eligible to continue with the same insurance coverage until 65 years of age, with all premiums paid by the employee. The employee's spouse is also eligible to continue with the same insurance coverage until 65 years of age, with all premiums to be paid by the employee. At June 30, 2007, the District has obligations to two participants with a total liability of \$60,328. Actual early retirement expenditures for the year ended June 30, 2007 totaled \$38,851. This program expired after the 2004-05 fiscal year and has not been renewed.

**(8) Operating Lease**

The District has entered into an operating lease for various electronic equipment. Future minimum lease payments in relation to this lease are as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Amount</u>
2008	\$ 15,694
2009	15,694
Total	<u>\$ 31,388</u>

During the fiscal year, payments made under this lease amounted to \$15,694.

**(9) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$108,063, \$104,069 and \$106,803, respectively, equal to the required contributions for each year.

**(10) Risk Management**

Melcher-Dallas Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(11) Related Party Transactions**

The District had business transactions totaling \$1,860 between the District and District officials during the year ended June 30, 2007.

**(12) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$130,293 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(13) Restatement**

The beginning balances in Note (6) have been restated to accurately reflect the July 1, 2006, balances by category. However, the net balance of \$3,537,309 at July 1, 2006, did not change from the prior year.

Required Supplementary Information

Melcher-Dallas Community School District

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -  
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Less Funds Not Required to be Budgeted	Net	Original and Final Budgeted Amounts	Budget to Net Variance
<b>Revenues:</b>							
Local sources	\$ 1,527,445	126,762	1,654,207	(44,129)	1,610,078	1,695,637	(85,559)
Intermediate sources	1,000	-	1,000	-	1,000	-	1,000
State sources	2,331,711	1,993	2,333,704	-	2,333,704	2,430,340	(96,636)
Federal sources	165,426	71,721	237,147	-	237,147	299,000	(61,853)
<b>Total revenues</b>	<b>4,025,582</b>	<b>200,476</b>	<b>4,226,058</b>	<b>(44,129)</b>	<b>4,181,929</b>	<b>4,424,977</b>	<b>(243,048)</b>
<b>Expenditures:</b>							
Instruction	2,388,301	-	2,388,301	-	2,388,301	2,971,595	583,294
Support services	1,065,672	-	1,065,672	-	1,065,672	1,070,855	5,183
Non-instructional programs	414	179,370	179,784	(7,291)	172,493	241,628	69,135
Other expenditures	328,642	-	328,642	-	328,642	346,769	18,127
<b>Total expenditures</b>	<b>3,783,029</b>	<b>179,370</b>	<b>3,962,399</b>	<b>(7,291)</b>	<b>3,955,108</b>	<b>4,630,847</b>	<b>675,739</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>242,553</b>	<b>21,106</b>	<b>263,659</b>	<b>(36,838)</b>	<b>226,821</b>	<b>(205,870)</b>	<b>432,691</b>
<b>Other financing sources, net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(64,841)</b>	<b>64,841</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>242,553</b>	<b>21,106</b>	<b>263,659</b>	<b>(36,838)</b>	<b>226,821</b>	<b>(270,711)</b>	<b>497,532</b>
<b>Balances beginning of year</b>	<b>503,376</b>	<b>20,612</b>	<b>523,988</b>	<b>-</b>	<b>523,988</b>	<b>294,996</b>	<b>228,992</b>
<b>Balances end of year</b>	<b>\$ 745,929</b>	<b>41,718</b>	<b>787,647</b>	<b>(36,838)</b>	<b>750,809</b>	<b>24,285</b>	<b>726,524</b>

See accompanying independent auditor's report.

Melcher-Dallas Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not amend its budget.

During the year ended June 30, 2007, expenditures did not exceed the amounts budgeted.

**Other Supplementary Information**

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2007

	Special Revenue			Capital Projects		Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	Local Option Sales Tax	
<b>Assets</b>						
Cash and pooled investments	\$ 27,698	33,276	25,371	1,685	183,894	271,924
Receivables:						
Property tax:						
Delinquent	4,385	-	460	2,859	-	7,704
Succeeding year	95,000	-	15,904	118,108	-	229,012
Due from other funds	11,544	-	-	-	-	11,544
Due from other governments	-	-	-	-	49,561	49,561
<b>Total assets</b>	<b>\$ 138,627</b>	<b>33,276</b>	<b>41,735</b>	<b>122,652</b>	<b>233,455</b>	<b>569,745</b>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	\$ -	3,556	-	-	-	3,556
Due to other funds	-	-	-	2,800	-	2,800
Deferred revenue:						
Succeeding year property tax	95,000	-	15,904	118,108	-	229,012
Total liabilities	95,000	3,556	15,904	120,908	-	235,368
Fund balances:						
Reserved for debt service	-	-	-	1,744	-	1,744
Unreserved fund balances	43,627	29,720	25,831	-	233,455	332,633
Total fund equity	43,627	29,720	25,831	1,744	233,455	334,377
<b>Total liabilities and fund balances</b>	<b>\$ 138,627</b>	<b>33,276</b>	<b>41,735</b>	<b>122,652</b>	<b>233,455</b>	<b>569,745</b>

See accompanying independent auditor's report.

Combining Schedule of Revenues, Expenditures  
and Changes in Fund Balances  
Nonmajor Governmental Funds

Year ended June 30, 2007

	Special Revenue			Capital Projects		Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	Local Option Sales Tax	
<b>Revenues:</b>						
Local sources:						
Local tax	\$ 150,099	-	15,732	97,840	238,368	502,039
Other	244	97,640	184	168	8,784	107,020
Federal sources	-	-	25,000	-	-	25,000
Total revenues	150,343	97,640	40,916	98,008	247,152	634,059
<b>Expenditures</b>						
Current:						
Instruction:						
Regular instruction	45,903	-	-	-	-	45,903
Special instruction	2,777	-	-	-	-	2,777
Other instruction	1,699	101,524	-	-	-	103,223
Support services:						
Student services	162	-	-	-	-	162
Instructional staff services	59	-	-	-	-	59
Administration services	11,835	-	-	-	18,432	30,267
Operation and maintenance of plant services	28,409	-	-	-	54,703	83,112
Transportation services	10,051	-	-	-	61,420	71,471
Non-instructional programs	414	-	-	-	-	414
Other expenditures:						
Facilities acquisition	-	-	27,952	-	3,872	31,824
Long-term debt:						
Principal	-	-	-	80,000	-	80,000
Interest and fiscal charges	-	-	-	86,525	-	86,525
Total expenditures	101,309	101,524	27,952	166,525	138,427	535,737
Excess (deficiency) of revenues over (under) expenditures	49,034	(3,884)	12,964	(68,517)	108,725	98,322
Other financing sources (uses):						
Operating transfers in	-	-	-	68,500	-	68,500
Operating transfers out	-	-	-	-	(68,500)	(68,500)
Total other financing sources (uses)	-	-	-	68,500	(68,500)	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	49,034	(3,884)	12,964	(17)	40,225	98,322
Fund balances beginning of year	(5,407)	33,604	12,867	1,761	193,230	236,055
Fund balances end of year	\$ 43,627	29,720	25,831	1,744	233,455	334,377

See accompanying independent auditor's report.

## Melcher-Dallas Community School District

Schedule 3

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
Interest	\$ -	747	432	(315)	-
H.S. Athletics	17,405	43,878	54,878	507	6,912
J.H. Athletics	-	57	-	(57)	-
Wrestling	591	-	-	-	591
SADD	342	-	-	-	342
Cheerleaders	81	3,135	2,848	(1)	367
FBLA	377	3,441	3,383	-	435
Yearbook	2,331	11,632	9,673	365	4,655
FHA	188	-	-	-	188
FFA	-	782	928	306	160
Newspaper	125	-	-	-	125
Student Council	5,684	17,618	16,295	80	7,087
Drill Team	690	8,008	5,400	-	3,298
Thespian Club	25	1,955	1,638	-	342
Elementary Student Government	3,504	1,394	1,386	-	3,512
Class of 07	1,160	612	886	(886)	-
Class of 08	-	4,351	3,777	1	575
Class of 09	10	-	-	-	10
Jr. High	1,091	30	-	-	1,121
Total	\$ 33,604	97,640	101,524	-	29,720

See accompanying independent auditor's report.

Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds

For the Last Five Years

	Modified Accrual Basis				
	2007	2006	2005	2004	2003
<b>Revenues:</b>					
<b>Local sources:</b>					
Local tax	\$ 1,216,786	1,379,115	1,201,987	934,471	948,264
Tuition	37,682	65,376	64,011	43,292	58,442
Other	272,977	222,448	139,860	143,103	134,023
Intermediate sources	1,000	-	-	-	-
State sources	2,331,711	2,094,760	2,027,764	2,159,338	2,253,229
Federal sources	165,426	182,962	142,202	111,001	132,711
<b>Total</b>	<b>\$ 4,025,582</b>	<b>3,944,661</b>	<b>3,575,824</b>	<b>3,391,205</b>	<b>3,526,669</b>
<b>Expenditures:</b>					
<b>Instruction:</b>					
Regular instruction	\$ 1,369,143	1,363,106	1,338,034	1,427,204	1,607,329
Special instruction	627,223	546,650	570,841	613,493	500,206
Other instruction	391,935	369,681	333,797	174,289	184,890
<b>Support services:</b>					
Student services	53,398	68,468	62,674	45,289	13,019
Instructional staff services	12,977	48,804	43,767	20,730	-
Administration services	486,116	445,826	392,616	378,676	328,846
Operation and maintenance of plant services	317,989	299,611	251,233	251,068	231,334
Transportation services	195,192	203,330	105,591	199,941	167,555
Non-instructional programs	414	352	391	-	354
<b>Other expenditures:</b>					
Facilities acquisition	31,824	-	10,383	177,009	1,064,697
<b>Long-term debt:</b>					
Principal	80,000	75,754	70,665	65,586	65,517
Interest and other charges	86,525	90,724	95,953	98,519	102,440
AEA flowthrough	130,293	124,015	123,819	127,839	137,004
<b>Total</b>	<b>\$ 3,783,029</b>	<b>3,636,321</b>	<b>3,399,764</b>	<b>3,579,643</b>	<b>4,403,191</b>

See accompanying independent auditor's report.

PEAK & GERDES, LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
1051 OFFICE PARK ROAD  
WEST DES MOINES, IOWA 50265

(515) 277-3077

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards

To the Board of Education of  
Melcher-Dallas Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Melcher-Dallas Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 5, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Melcher-Dallas Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Melcher-Dallas Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Melcher-Dallas Community School District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when a design in the operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Melcher-Dallas Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Melcher-Dallas Community School District's financial statements that is more than inconsequential will not be prevented or detected by Melcher-Dallas Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in the internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Melcher-Dallas Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items I-A-07 and I-B-07 are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Melcher-Dallas Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Melcher-Dallas Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Melcher-Dallas Community School District's responses and accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Melcher-Dallas Community School District and other parties to whom the Melcher-Dallas Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Melcher-Dallas Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Gerdes, LLP  
Certified Public Accountants

September 5, 2007

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2007

**Part I: Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

I-A-07 Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation – We realize that it is difficult to segregate duties with a limited number of office employees. However, the District should review its operating procedures to obtain the maximum control possible under the circumstances.

Response – We will continue to investigate available alternatives.

Conclusion – Response accepted.

I-B-07 Financial Reporting – During the audit, we identified material amounts of receivables, payables, and capital asset additions not recorded in the District's financial statements. Adjustments were subsequently made by the District to properly include these amounts in the financial statements.

Recommendation – The District should implement procedures to ensure all receivables, payables, and capital asset additions are identified and included in the District's financial statements.

Response – We will double check these in the future to avoid missing any receivables, payables, and capital asset transactions.

Conclusion – Response accepted.

I-C-07 Disbursements – Activity Fund invoices paid before the Board meeting are not consistently approved by the Board President or Superintendent prior to payment, as required by Chapter 279.29 and 279.30 of the Code of Iowa. Scholarship Fund invoices are not consistently approved by the Board prior to payment. In addition, there was not always documented receipt of merchandise prior to the payment of the invoices. Also, the Board Secretary does not sign all checks as required by Chapter 291.8 of the Code of Iowa.

Recommendation – For payments made in advance of Board meetings, the District should maintain documentation of the Board President's or Superintendent's approval of claims for payment. The District should also ensure that all claims for payment are approved by the Board, and that there is documented receipt of merchandise prior to payment of the invoices. Also, the Board Secretary should sign all checks as required by Chapter 291.8 of the Code of Iowa.

Response – We will implement these recommendations.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2007

**Part II: Other Findings Related to Required Statutory Reporting:**

II-A-07 Certified Budget – Expenditures for the year ended June 30, 2007 did not exceed the certified budgeted amounts.

II-B-07 Questionable Disbursements - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted.

II-D-07 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Lary Willoughby, Board Member	Coach	\$ 1,860

The board member was included on the District’s payroll. The contract with the employee was approved by the Board. Due to the size of the transactions, the above does not appear to represent a conflict of interest pursuant to Chapter 279.7A of the Code of Iowa.

II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-07 Board Minutes – As previously noted, the Scholarship Fund invoices were not consistently approved by the Board. In addition, these same invoices were not published as required by Chapters 279.29 and 279.35 of the Code of Iowa. Other instances were noted where adequate documentation was not available to support the disbursements made. Also, for Activity Fund disbursements, the Board President or Superintendent does not approve the early payment of invoices in accordance with the District’s policy and Code of Iowa requirements.

For a closed session, the Board minutes did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Recommendation – The District implement procedures to ensure the requirements as noted in the Code of Iowa are met regarding the approval and publication of invoices. Sufficient documentation should be maintained supporting all disbursements. In addition, for payments made in advance of board meetings, the District should require the Board President or Superintendent’s approval of invoices prior to payment. The District should also comply with Chapter 21 of the Code of Iowa regarding the open-meetings law.

Response – We will implement these recommendations.

Conclusion – Response accepted

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2007

II-G-07 Certified Enrollment – The number of basic resident students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification Form for September 2006 was overstated by .74 students. In addition, line 8 of the Certified Enrollment Certification Form for September 2006 was overstated by 3 students.

Recommendation – The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response – We will contact the Iowa Department of Education and the Department of Management.

Conclusion – Response accepted.

II-H-07 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

II-I-07 Certified Annual Report – The Certified Annual Report was certified timely to the Iowa Department of Education.

II-J-07 Fuel Procedures – The District buys its fuel as needed from a vendor in town. In addition, a vehicle log is kept in each vehicle. However, there is no documented reconciliation between fuel purchased as recorded on the vendor invoices with the vehicle logs.

Recommendation – To provide increased accountability over fuel purchased, the District should periodically reconcile fuel purchased as recorded on the vendor invoices with the vehicle logs. Any differences and any unusual amounts of fuel used should be periodically investigated and followed up on in a timely manner.

Response – We will review our procedures at this time.

Conclusion – Response accepted.

II-K-07 General Fixed Assets – Fixed assets were not periodically counted and reconciled to the fixed asset listing by an independent person.

Recommendation – Fixed assets should be periodically counted and reconciled to the fixed asset listing by a person who does not have custody of the fixed assets.

Response – We will implement this recommendation.

Conclusion – Response accepted.

II-L-07 Compliance Issues – We noted an instance in which the District failed to file an IRS 1099-Misc. Form.

Recommendation – The District implement procedures to ensure all IRS 1099-Misc. Forms are filed in the future.

Response – We will implement this recommendation.

Conclusion – Response accepted.

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2007

II-M-07 Payroll – An instance was noted where an employee was paid even though no current written contract existed. Instances were noted where I9's were either missing or incomplete. In one instance an employee was overpaid.

Recommendation – The District implement procedures to ensure written contracts exist for all employees. In addition, completed I9's should be maintained for all employees. Also, procedures should be implemented to ensure all employees are paid the correct amount.

Response – We will implement these to the best of our ability.

Conclusion – Response accepted.

II-N-07 Early Retirement – In fiscal year 2005, the District offered eligible employees an early retirement incentive, as outlined in the early retirement Board policy. Based on our review of this policy, the Board did not indicate what early retirement option they chose. Also, the policy chosen by the employees and as written by a former superintendent requires that the early retirement incentive be paid out on a pro-rata basis from the employees retirement date until they are 65 years of age. We noted that the employees are not paid their early retirement incentive on a pro-rata basis.

The District's early retirement policy allows those retired employees to continue to be covered under the District's health care insurance plan, with all costs to be paid by the employee. However, even after retirement of these employees, the District continues to pay for part of the costs of the health care insurance plan from District funds. This situation was addressed by the School Attorney, and the Attorney indicated that the District should not pay for these costs. However, through Board vote in fiscal year 2007, a majority of the Board voted that the District should continue to pay for part of the costs for the health care insurance plan for early retirees. As a result, in fiscal year 2007, it appears the District retroactively changed the early retirement policy. The total amount that will be paid by the District from District funds for the health care insurance plan for the early retirees is approximately \$20,000. There was no documentation as to why the Board did not follow the School Attorney's advice, and whether the payment of these costs meet the test of public purpose.

Recommendation – The District should consult with legal counsel to determine the proper disposition of all these issues, including whether the District can legally retroactively change the early retirement policy through a Board vote. If the District continues to pay for part of the cost of the health care insurance plan for its early retirees from District funds, it should document in the Board minutes how these costs meet the test of public purpose.

Response – We will review this.

Conclusion – Response accepted

Melcher-Dallas Community School District

Schedule of Findings

Year ended June 30, 2007

II-O-07 Local Option Sales Tax – The District paid for some equipment from the Local Option Sales Tax Fund which individually cost less than \$500. Based on Section 298.3 of the Iowa Code, it does not appear that this is an allowable use of these funds.

Recommendation – The District review all disbursements from the Local Option Sales Tax Fund for propriety, and make corrective transfers, if necessary.

Response – We will review this.

Conclusion – Response accepted.

II-P-07 Enrollment Procedures – There does not appear to be adequate procedures in place to reconcile the number of children as noted on the class lists with the certified enrollment forms submitted to the State (see II-G-07). In addition, there does not appear to be procedures in place to reconcile the number of children on the open enrollment in and out certified enrollment forms as submitted to the State, with the billings to and from other Districts for open enrollment tuition. As a result of these lack of procedures, during our audit fieldwork, we identified approximately \$18,000 still due from a neighboring District for the 2006-07 school year for open enrollment in tuition. This situation was not known by the District until we brought it to their attention.

Recommendation – The District implement procedures to ensure the number of children as recorded on the class lists reconcile with the certified enrollment forms submitted to the State. In addition, procedures should be implemented to reconcile the number of children on the open enrollment in and open enrollment out certified enrollment forms with the billings to and from the other Districts for open enrollment tuition.

Response – We will implement these recommendations.

Conclusion – Response accepted.